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5 October Meeting with DDCI

NIO/Economics

Threats Against the United States

The annual World Bank/Fund meeting which took place last week on the whole was even more upbeat than most US officials expected. In particular, there was greater confidence than last year in the stability of the US banking system. There was also satisfaction with the announced tentative agreement between the IMF and Argentina, with progress toward such an agreement with the Philippines, and with the successful negotiation of long-term debt rescheduling between Mexico and the Bank and the prospect of an early similar agreement with Venezuela. But despite these successes, major problems remain. For example:

- o There are signs that Argentina has not yet come up with a specific economic program acceptable to the IMF for implementing the overall agreement on objectives. So far at least the Argentine government appears to be trying to lower inflation and meet IMF criteria in an essentially painless manner. This is almost certainly impossible. Either the agreement with the IMF will not be finalized or Argentina will fall out of compliance within three months. It is possible, however, that Alfonsin will become persuaded that he must bite the bullet--which will mean some declines in real wages--and appeal to the country to override opposition from the Peronists.
- o Peru, Bolivia, and Chile are facing growing difficulties in managing the internal economies and debt service obligations. Chile, hard hit by a combination of falling copper prices and high interest rates, cannot continue to pull out of its economic depression and still meet its obligations. Consequently Pinochet will have few economic carrots to ease political opposition. In Peru the lame duck government is trying to avoid a further erosion of its already weak political position. Bolivia is a basket case.
- o In most debtor countries, economic problems are generating political pressures that are substantially restricting the flexibility of debtor country governments to undertake economic reforms and to deal cooperatively with foreign creditors, including the IMF--a condition which increases the risks of debtor-creditor confrontations even though some of the economies will probably improve.

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